

27 April 2007

Dr John Tamblyn  
Chairman  
Australian Energy Market Commission  
PO Box H166  
Australia Square NSW 1215

Dear John

**Submission on the Southern Generators' Rule Change Proposal**

Thank you for providing the opportunity to comment on the Southern Generators' proposal of 15 March 2007 to move part of the Chapter 8A Part 8 derogation (the Snowy CSP/CSC derogation and Southern Generators' variation) into Chapter 3 of the Rules.

NEMMCO offers the following comments to assist the Commission in their consideration of this proposal:

- There are no issues in terms of practical implementation. NEMMCO has the capability to amend the settlement processing at short notice to turn on or off either or both of the CSP/CSC scheme and the Southern Generators' variation should the current derogation be allowed to terminate, or continue with the status quo if the proposal is accepted. Both these developments were implemented to allow the above flexibility.
- The Settlement Residue Auction sells units out approximately 15 months into the future where parties bid on the expectation of a particular operation of interconnector values and flows. Although it is possible, and has been done in the past, to cancel units and allow them to be handed back, the short notice changes to market design is not generally in the best interests of the market. Recent concerns have been expressed to NEMMCO over the suspension of the Quarter 4, 2007 and Quarter 1, 2008 SRA units involving the Snowy Boundary, as it is having an impact on the financial contract market.
- The provisions in the derogation 8A Part 8 clauses (b) and (c) are important for the NEM's current operations. The fully co-optimised constraints have been effective in managing power system security and reliability. NEMMCO is aware of and supports the AEMC's consideration of constraint formulation and the management of negative residues in its Congestion Management Review. Thus it is important that the clarity afforded by the derogation clauses (a) (b) and (c) is maintained pending the outcomes of the AEMC's determinations. Within the framework of the proposal as presented, it would be appropriate for the AEMC by way of cause (e) (3) or other means to determine that the clauses (a) to (c) have continued operation until

otherwise determined by the Commission and are not allowed to terminate on 31 July 2007.

- Sections 2 and 3 of the Snowy Hydro submission of 26 March 2007 to the Southern Generators' proposal refers to inefficient market outcomes when both the Murray/Tumut and South Morang or Latrobe Valley constraints are binding. NEMMCO would suggest that analysis needs to be undertaken to assess whether these outcomes arise principally because of CSP/CSC arrangements with the Southern Generators' variation or because suitable congestion management has not been put in place for the South Morang or Latrobe Valley constraints. The analysis may help to determine if removal of the Southern Generators' variation to the derogation would prevent these latter constraints from binding in similar circumstances.

Yours faithfully

  
**Brian Spalding**  
**Chief Operating Officer**